



Economic and Revenue Update

A Briefing for the Money Committees

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Topics for Discussion

- National and State Economic Indicators
- March Year-to-Date Revenue Collections, Fiscal Year 2018
- Next Significant Data Points
- Federal Tax Reform Interim Update
- Rating Agency – Cash Reserve Information

National and State Economic Indicators

- According to the final estimate, real GDP grew at an annualized rate of 2.9 percent in the fourth quarter of 2017, following 3.2 percent in the third quarter.
- Payroll employment rose by 103,000 jobs in March, below expectations.
 - The February gain was revised up from 313,000 to 326,000.
- The national unemployment rate was unchanged at 4.1 percent in March.
- Initial claims for unemployment rose by 24,000 to 242,000 during the week ending March 31.
 - The four-week moving average rose by 3,000 to 228,250.
- The Conference Board's index of leading indicators rose 0.6 percent in February, following a 0.8 percent increase in January, suggesting the economic expansion should continue.
- The Conference Board's index of consumer confidence fell 2.3 points to 127.7 in March. Both the expectations and current conditions components declined for the month.
- Conditions in the manufacturing sector slowed somewhat in March. The Institute of Supply Management index fell from 60.8 to 59.3, but remains in expansionary territory.

National and State Economic Indicators

- The CPI rose 0.2 percent in February after a 0.5 percent gain in January and stands 2.3 percent above February 2017.
 - Core inflation (excluding food and energy prices) rose 0.2 percent, and has increased 1.9 percent from last year.
- At its February meeting, the Federal Reserve raised the federal funds target rate to 1.50 to 1.75 percent.
- The VEC released re-benchmarked employment data for calendar years 2016 and 2017. Growth in the first half of fiscal year 2018 was revised downward from 1.2 to 0.8 percent.
- In February, the most recent month for which data are available, Virginia employment rose 1.1 percent from February of last year. Northern Virginia posted growth of 2.3 percent; Hampton Roads grew 0.2 percent; and Richmond-Petersburg rose 0.7 percent.
- The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.5 percent in February, the lowest rate since April 2008.
- The Virginia Leading Index rose 0.6 percent in February after increasing 0.4 percent in January.
 - All four components improved in January: auto registrations, the U.S. leading index, future employment, and initial claims for unemployment.
 - Indexes in all metropolitan statistical areas increased for the month.

CBO Raises Estimates for Deficits

By BEN LEUBSDORF

WASHINGTON—Tax cuts and spending increases enacted over the past four months will lead to wider budget deficits than previously expected and a mostly temporary spurt in economic growth, Congress's nonpartisan scorekeeper predicted Monday.

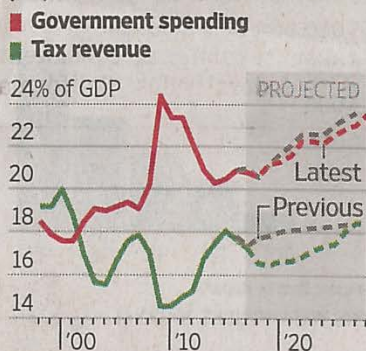
The Congressional Budget Office said the federal budget deficit would total \$804 billion this year, 43% larger than it had projected last summer, and exceed \$1 trillion a year starting in 2020. The deficit was \$665 billion in the fiscal year ended Sept. 30.

Economic growth will jump above 3% this year thanks to fiscal stimulus, the CBO said, but the agency predicted the acceleration will prove largely fleeting. Larger deficits will add to the national debt: Debt held by the public will hit \$28.7 trillion at the end of fiscal 2028, or 96.2% of gross domestic product, up from 78% of GDP in 2018.

Those estimates assume current law will remain in effect, meaning Congress would

Wider Deficits

New ten-year projections predict wider near-term gaps between government spending and tax revenue compared with 2017 projections.



Note: Fiscal year ends Sept. 30.
Source: Congressional Budget Office
THE WALL STREET JOURNAL.

allow some tax cuts to expire and spending caps to take effect again in the coming years. If Congress extends the tax cuts, as many Republicans want to do, the CBO predicted wider deficits and publicly held debt of about 105% of GDP by the end of 2028—a level exceeded only once in U.S. history, in the immediate

aftermath of World War II.

“Such high and rising debt would have serious negative consequences for the budget and the nation; in particular, the likelihood of a fiscal crisis in the United States would increase,” CBO Director Keith Hall said.

Congress in December enacted corporate and individual tax cuts and in February approved a two-year budget deal, followed last month by a spending bill that boosted government outlays this year on both domestic and military programs.

Hoping to rein in federal spending, top White House officials are working on a proposal of “rescissions,” or cuts they hope to make to last month’s \$1.3 trillion spending bill, but it isn’t clear a rescission bill could pass the Senate.

When the CBO last issued projections in June, it expected the federal budget deficit would widen from 2.8% of gross domestic product in the 2018 fiscal year to 5.2% of GDP in 2027. That would take the debt held by the public from 78% of GDP in the current fiscal year to 91.2% of GDP in 2027.

In Monday’s report, the CBO revised deficit numbers higher in the short term. The deficit is expected to rise from 4% of GDP in 2018 to 5.4% of GDP in 2022, then ease to 5.1% of GDP in 2028. The debt held by the public will climb from 78% of GDP in 2018 to 94.5% of GDP in 2027, then 96.2% in 2028, the agency said.

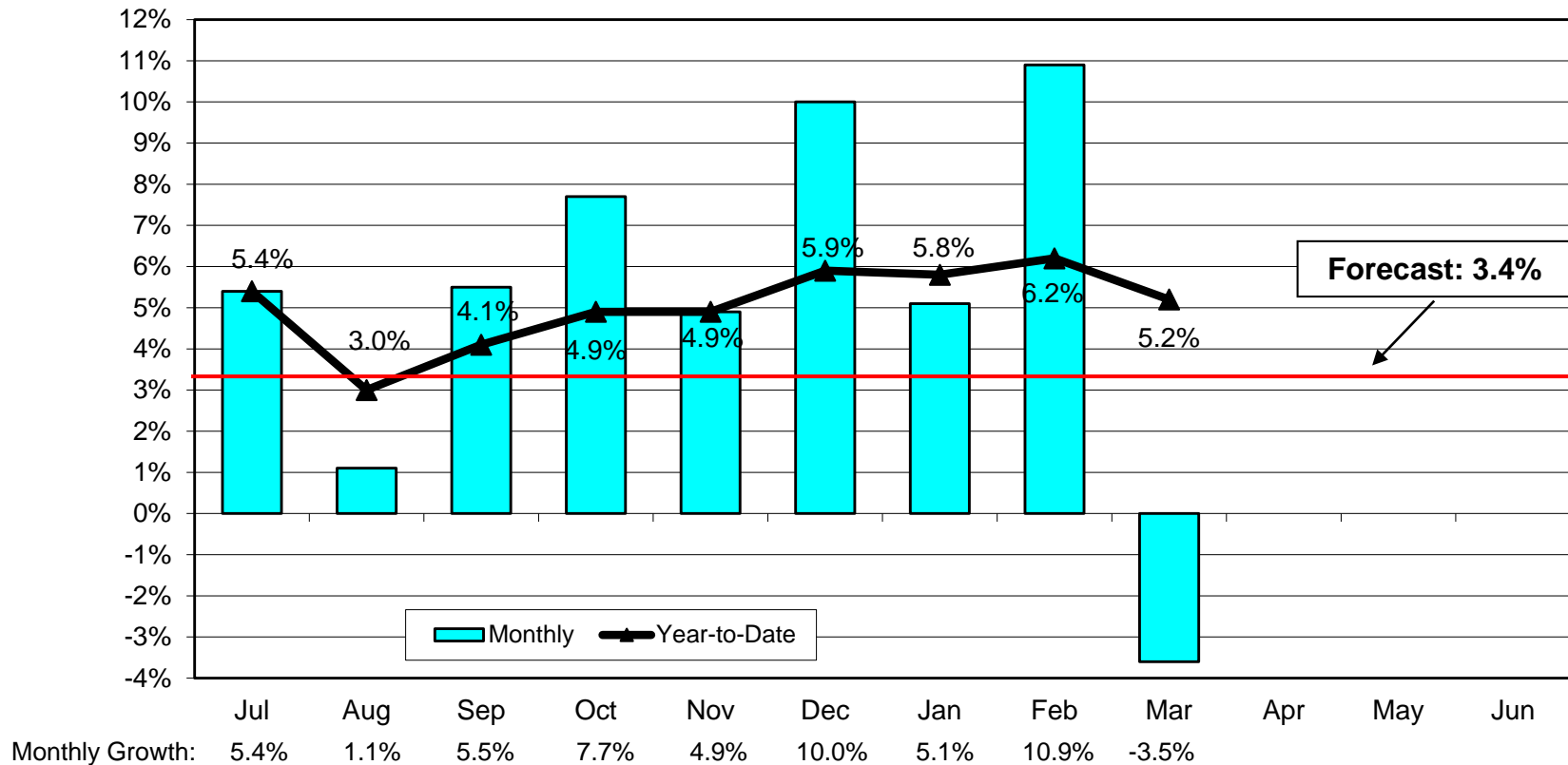
Among other things, the CBO projected lower revenues because of the tax cuts and higher interest payments on the national debt.

“We’ve just had a great deal of fiscal stimulus on an economy that’s nearly out of slack,” Mr. Hall said, adding that should put upward pressure on inflation and lead the Federal Reserve to raise interest rates faster than expected.

The CBO predicted economic output would expand 3.3% in the fourth quarter of 2018 from a year earlier, up from its June 2017 estimate of 2% growth. Annual growth would slow in subsequent years: 2.4% in 2019; 1.8% in 2020; 1.5% in 2021 and 2022; and 1.7% in 2023 through 2028.

Growth in Total General Fund Revenue Collections

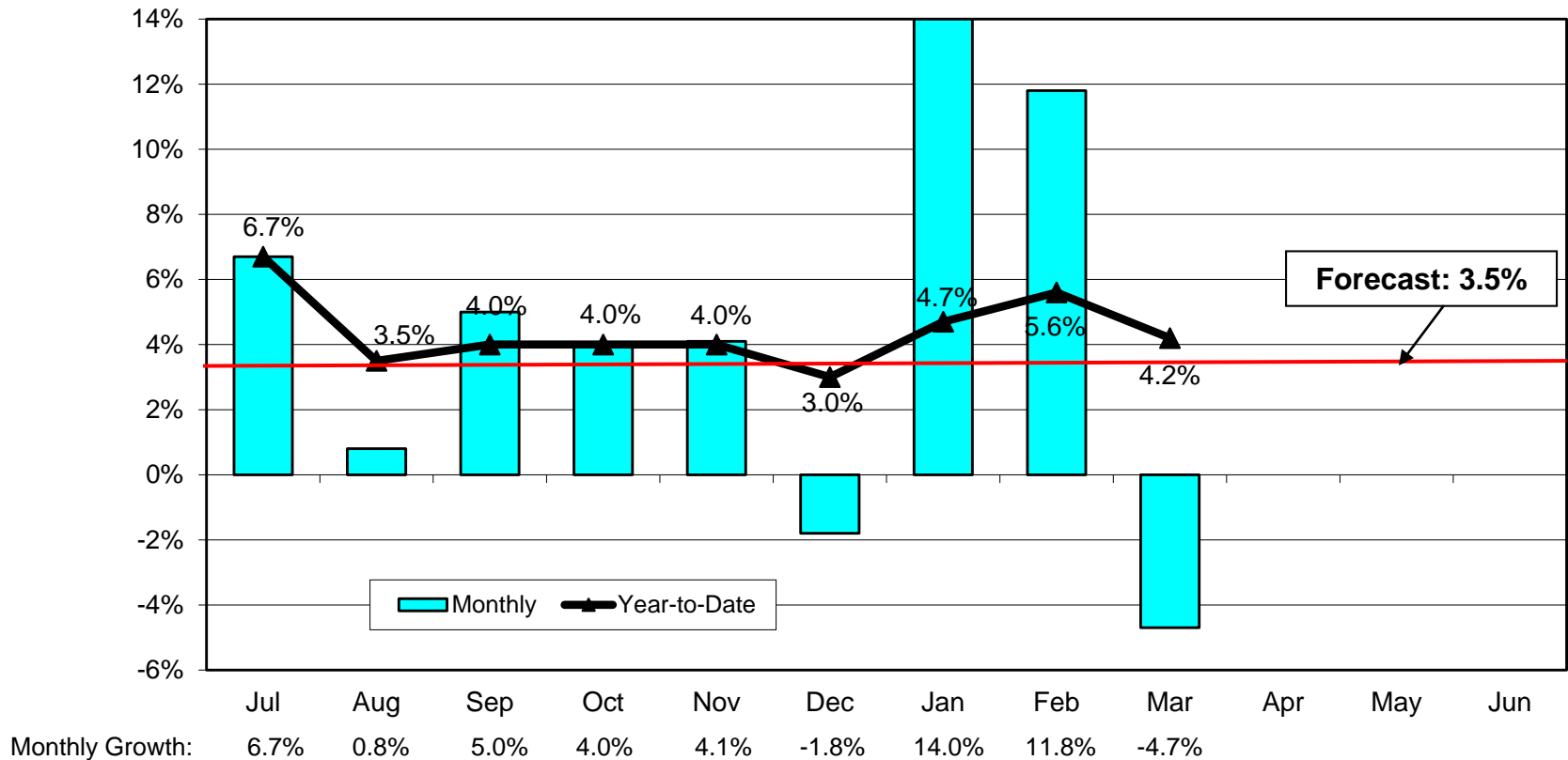
FY18 Monthly and Year-to-Date



- Total general fund revenues decreased 3.5% percent in March.
 - Payroll withholding had one less deposit day.
- On a year-to-date basis, total revenues increased 5.2 percent, ahead of the annual forecast of a 3.4 percent increase.

Growth in Withholding Tax Collections

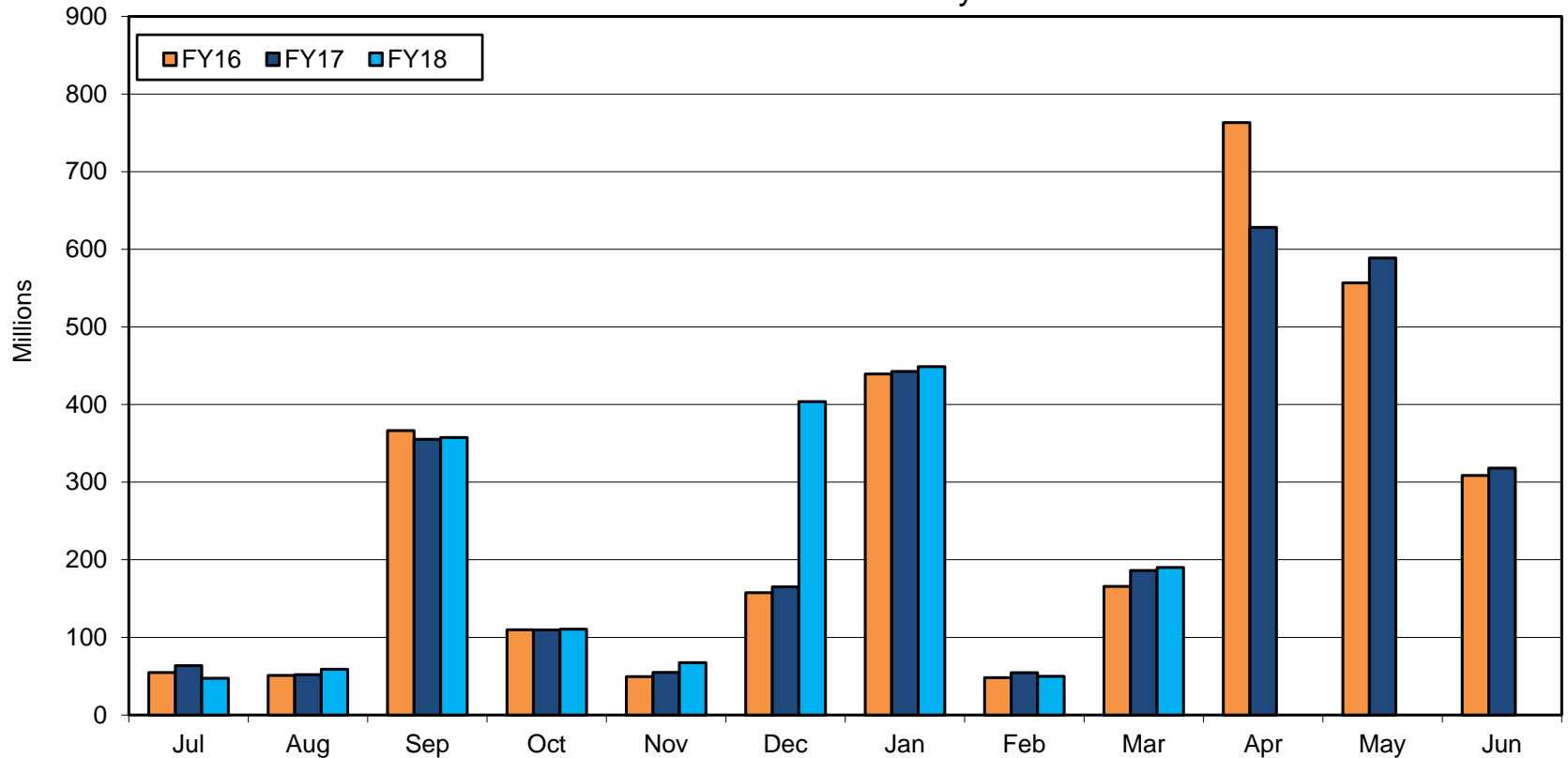
FY18 Monthly and Year-to-Date



- Collections decreased 4.7 percent in March due to one less deposit day.
- Year-to-date, withholding collections increased 4.2 percent compared with the same period last year, ahead of the projected annual growth rate of 3.5 percent.

Nonwithholding Tax Collections

FY16 - FY18 Monthly



- March is not a significant month.
- Year-to-date, collections increased 16.9 percent, ahead of the annual estimate of 4.3 percent growth.

Individual Income Tax Refunds

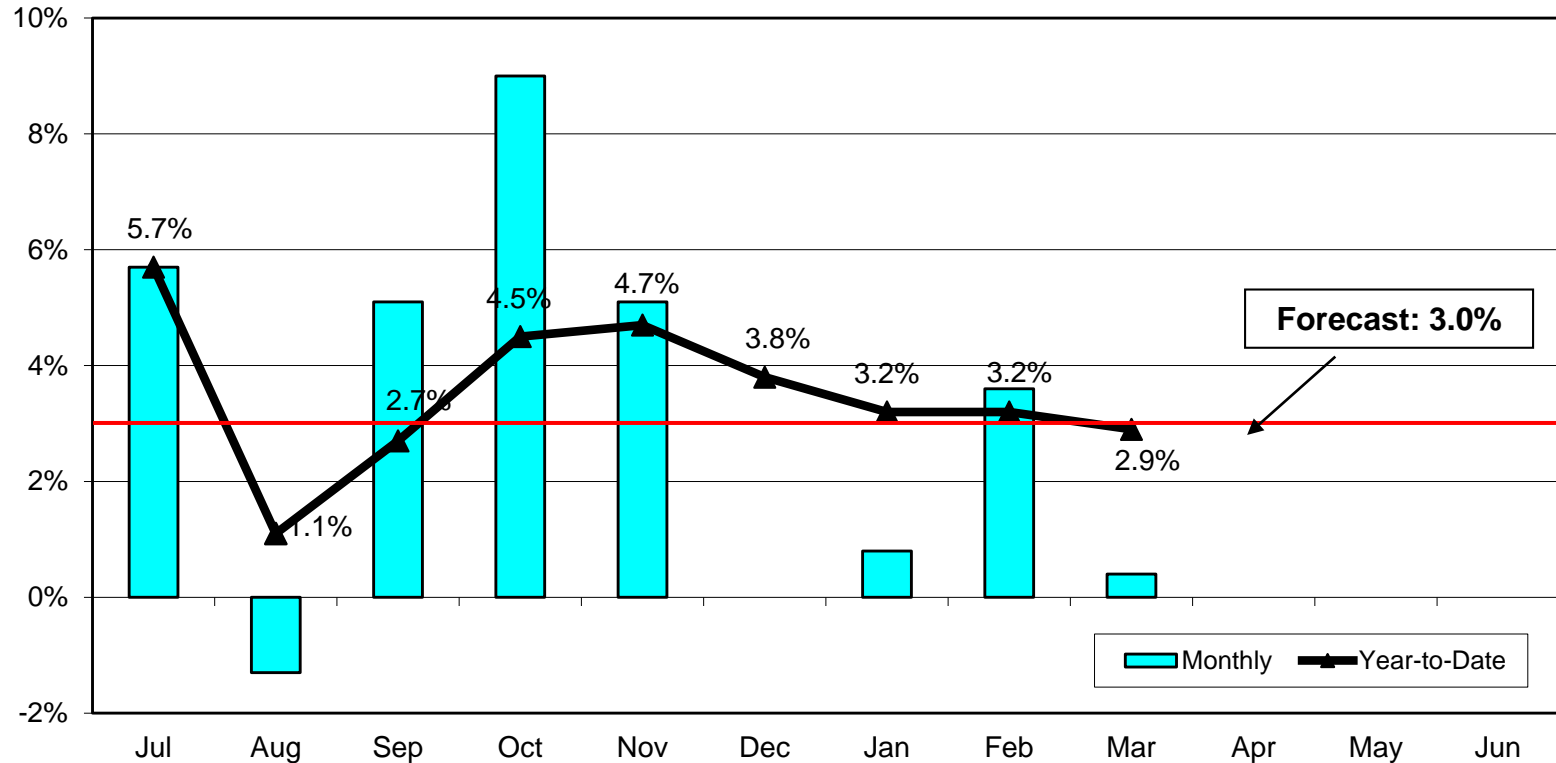
- As the main filing season continues, \$390.0 million in refunds were issued in March compared with \$411.0 million last March.
- Year-to-date, refunds increased 3.2 percent from the same period last year, as compared to the estimate of a 5.8 percent increase.
 - Since the filing season began in January, TAX has issued 1.6 million refunds, about the same number through March of last year.

Net Individual Income Tax

- Through March, collections of net individual income tax rose 6.4 percent from the same period last year, ahead of the annual estimate of 3.4 percent growth.

Growth in Sales Tax Collections

FY18 Monthly and Year-to-Date



Monthly Growth: 5.7% -1.3% 5.0% 9.0% 5.1% 0.0% 0.8% 3.6% 0.4%

- Collections of sales and use taxes, reflecting mainly February sales, had a 0.4 percent increase in March.
- On a year-to-date basis, collections increased 2.9 percent, behind the annual estimate of 3.0 percent growth.

Net Corporate Income Tax Collections

- Collections of corporate income tax were \$61.5 million in March, compared with \$85.0 million last March.
 - Most of the activity in March is from companies making final tax year 2017 payments ahead of the April 17th due date.
- On a year-to-date basis, collections in this source have increased 5.8 percent, ahead of the estimate of 5.7 percent growth.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 6.1 percent in March.
 - On a year-to-date basis, collections are down 1.4 percent, behind the forecast of 3.3 percent growth.

Insurance Premiums Tax

- Final payments from insurance companies for tax year 2017 were due in March. Collections in this source were \$23.4 million compared with \$16.1 million in March of last year.
 - Estimated payments are due in April and June.
- For the fiscal year to-date, net insurance premiums tax collections are \$83.7 million compared with \$97.2 million during the same period last year.

Summary of Fiscal Year 2018 Revenue Collections

July through March

Percent Growth over Prior Year

<u>Major Source</u>	<u>As a % of Total Revenues</u>	<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>	<u>Apr-Jun Req'd to Meet Est.</u>	<u>Prior Year Apr-Jun</u>
Withholding	63.7 %	4.2 %	3.5 %	0.7 %	1.3 %	5.0 %
Nonwithholding	16.3	16.9	4.3	12.6	(7.9)	(5.7)
Refunds	(10.2)	3.2	5.8	(2.6)	9.8	6.4
Net Individual	69.8	6.4	3.4	3.0	(4.2)	0.0
Sales	17.9	2.9	3.0	(0.1)	3.2	2.5
Corporate	4.5	5.8	5.7	0.1	5.6	16.3
Wills (Recordation)	2.1	(1.4)	3.3	(4.7)	15.9	1.8
Insurance	1.9	(13.9)	6.2	(20.1)	14.2	0.1
All Other Revenue	3.8	(0.5)	1.6	(2.1)	5.4	0.0
Total	100.0 %	5.2 %	3.4 %	1.8 %	(0.7) %	1.4 %

Summary of Fiscal Year 2018 Revenue Collections

July through March

	Total	Revenue Collections Through:											
FY	Collections	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2000	10,788.5	699.1	1,435.8	2,503.0	3,210.6	3,977.8	5,080.0	6,067.5	6,704.5	7,374.1	8,411.9	9,663.1	10,788.5
2001	11,105.3	688.0	1,452.7	2,546.4	3,312.7	4,106.3	5,052.9	6,295.8	6,981.1	7,652.5	8,696.8	9,998.9	11,105.3
2002	10,679.0	705.4	1,483.7	2,485.4	3,315.4	4,136.9	5,071.2	6,184.7	6,794.7	7,459.8	8,388.0	9,414.6	10,679.0
2003	10,867.1	644.3	1,409.6	2,513.3	3,324.3	4,109.7	5,203.2	6,320.5	6,933.6	7,547.7	8,579.5	9,539.0	10,867.1
2004	11,917.9	699.3	1,553.7	2,724.3	3,618.2	4,449.1	5,570.2	6,721.0	7,377.9	8,130.2	9,393.7	10,423.6	11,917.9
2005	13,687.3	772.5	1,698.8	3,009.8	3,998.0	4,964.5	6,295.1	7,684.7	8,415.7	9,300.7	10,745.5	12,012.3	13,687.3
2006	14,834.3	840.5	1,987.8	3,445.8	4,510.5	5,537.3	7,006.6	8,542.7	9,306.7	10,273.3	11,758.2	13,253.6	14,834.3
2007	15,565.8	1,059.7	2,158.2	3,707.7	4,778.6	5,873.0	7,303.6	8,882.9	9,684.8	10,658.1	12,180.5	13,883.2	15,565.8
2008	15,767.0	1,095.6	2,231.1	3,842.1	5,023.2	6,085.2	7,540.8	9,175.5	9,916.1	10,920.8	12,664.1	14,131.9	15,767.0
2009	14,315.1	1,126.9	2,188.0	3,679.9	4,848.9	5,861.6	7,278.9	8,667.9	9,307.9	10,173.1	11,572.9	12,811.3	14,315.1
2010	14,219.5	1,036.2	2,027.7	3,407.0	4,482.0	5,465.7	6,960.9	8,258.9	8,861.4	9,752.5	11,157.9	12,394.4	14,219.5
2011	15,040.2	867.4	1,911.7	3,348.1	4,462.9	5,537.9	7,062.6	8,523.8	9,226.6	10,228.2	11,655.4	13,113.5	15,040.2
2012	15,846.7	955.4	2,080.6	3,573.2	4,722.6	5,903.2	7,356.7	8,868.2	9,692.1	10,770.1	12,347.9	13,927.3	15,846.7
2013	16,684.6	938.0	2,137.6	3,619.5	4,948.9	6,091.0	7,615.0	9,421.8	10,229.6	11,242.1	12,855.0	14,757.7	16,684.6
2014	16,411.4	1,059.9	2,201.4	3,722.3	4,980.1	6,134.4	7,670.6	9,371.5	10,151.7	11,242.9	13,017.7	14,526.7	16,411.4
2015	17,735.6	1,208.9	2,370.4	3,972.6	5,286.0	6,451.6	8,189.9	9,871.8	10,821.7	12,041.3	13,997.6	15,595.1	17,735.6
2016	18,040.1	1,088.3	2,309.0	4,066.3	5,312.6	6,538.5	8,318.1	10,111.0	11,048.9	12,360.6	14,185.1	15,883.0	18,040.1
2017	18,695.1	1,128.1	2,495.9	4,211.3	5,500.4	6,890.2	8,651.3	10,576.8	11,548.5	12,934.7	14,697.5	16,472.7	18,695.1
Average	14,566.7	923.0	1,951.9	3,354.3	4,424.2	5,450.8	6,846.0	8,308.2	9,055.7	10,003.5	11,461.4	12,877.9	14,566.7
% of Total	100.0%	6.3%	13.4%	23.0%	30.4%	37.4%	47.0%	57.0%	62.2%	68.7%	78.7%	88.4%	100.0%
2018													
HB/SB 29	19,328.2	1,188.6	2,572.0	4,382.3	5,770.2	7,227.8	9,165.2	11,189.5	12,267.0	13,605.4	-	-	-
% of Estimate		6.1%	13.3%	22.7%	29.9%	37.4%	47.4%	57.9%	63.5%	70.4%	0.0%	0.0%	0.0%

Next Significant Data Points

- **April**
 - Corporate final and estimated payments are due on April 17th.
 - Individual nonwithholding payments will be received ahead of the May 1 due date.
 - Peak individual income tax refunding month.
- **May**
 - Key payments from individual nonwithholding will be received.
- **June**
 - Individual, corporate and insurance companies have estimated payments due June 15th.

Federal Tax Reform Interim Update

Background

- The Tax Cuts and Jobs Act of 2017 (TCJA) is the most substantial federal tax legislation since 1986.
- Certain provisions, such as rate and bracket changes, have no Virginia impact.
- Many provisions do have a Virginia impact.

Federal Tax Reform Interim Update

Background on Chainbridge

- Has been developing and delivering tax policy analysis tools for state government clients for nearly two decades.
- Eric Cook, PhD, revenue estimator at the U.S. Congressional Joint Committee on Taxation during federal tax reform efforts leading to the Tax Reform Act of 1986.
- Directed development of tax modeling projects for state government clients (Price Waterhouse and KPMG), left KPMG to form Chainbridge in 2000.

Federal Tax Reform Interim Update

Chainbridge: Approach

- Construct two microsimulation models (individual income tax and corporation income tax)
- For each individual, business or international provision:
 - Determine the likely impact that the provision has on Virginia
 - Determine whether an on-model (using the microsimulation models) or off-model approach would be employed
 - Generate the revenue estimates and prepare a report presenting the results

Federal Tax Reform Interim Update

Chainbridge: Estimating Approach

- Different from economic forecasting model
- Database includes Virginia TY 2015 returns matched with federal returns for Virginia residents (as opposed to current Virginia Tax model with state data only), extrapolated to future years
- Allows tax to be recalculated for alternative scenarios using federal data and federal law (including indexing provisions), and to minimize combined Virginia and federal taxes

Federal Tax Reform Interim Update

Overall Impact

- The TCJA results in significant tax cuts for individuals and businesses at the federal level.
- Offset by increases in individual and business taxes for the Commonwealth.

Federal Tax Reform

Interim Update

Impact on the Decision to Either Itemize or Take the Standard Deduction

Virginia		Itemized Deduction Number of Returns		Standard Deduction Number of Returns		Number Switching from Itemized to Standard
Adjusted Gross Income		(Prior Law)	(New Law)	(Prior Law)	(New Law)	
< 0	25,000	232,957	77,651	893,850	1,049,156	155,306
25,000	50,000	172,199	94,442	620,794	698,551	77,757
50,000	75,000	209,331	127,340	289,086	371,077	81,991
75,000	100,000	204,205	125,902	151,932	230,235	78,303
100,000	125,000	182,734	105,273	71,134	148,595	77,461
125,000	150,000	143,671	89,384	27,874	82,160	54,286
150,000	175,000	106,783	71,504	12,158	47,438	35,280
175,000	200,000	77,565	54,641	5,782	28,705	22,923
200,000	250,000	100,557	73,970	4,218	30,805	26,587
250,000	500,000	120,865	93,769	1,549	28,646	27,097
500,000	1,000,000	25,235	21,024	350	4,561	4,211
1,000,000	> 1,000,000	10,533	9,468	275	1,340	1,065
TOTALS		1,586,635	944,368	2,079,002	2,721,269	642,267

Rating Agency Cash Reserve Information

Comparison of Rainy Day Fund Balances and Rainy Day Fund Balances as a Percent of Expenditures for Triple AAA Rated States*

	<i>Rainy Day Fund Balances (\$ in millions)</i>			<i>Rainy Day Fund Balances (Percent of Expenditures)</i>		
	FY 2016	FY 2017	FY 2018	FY 2016	FY 2017	FY 2018
Delaware	215	221	232	5.5	5.4	5.6
Georgia	2,033	N/A	N/A	9.3	N/A	N/A
Indiana	1,468	1,474	1,434	9.8	9.5	9.2
Iowa	729	605	624	10.1	8.3	8.6
Maryland	832	832	859	5.0	4.8	5.0
Missouri	291	294	304	3.2	3.2	3.3
North Carolina	1,575	1,838	1,838	7.4	8.3	8.0
South Dakota	143	157	165	9.8	10.2	10.4
Tennessee	568	668	800	4.5	4.9	5.5
Texas	9,715	10,297	10,457	18.0	19.2	19.1
Utah	493	493	493	7.8	7.7	7.4
Virginia	236	549	283	1.2	2.7	1.4

Source: "The Fiscal Survey of States, Fall 2017", National Association of State Budget Officials.

*Hold AAA rating across all three rating agencies.

**Days' Worth of General Fund Expenditures
in Rainy Day Funds for Triple AAA Rated States**

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Delaware	18.9	19.8	19.4	20.3	20.0	19.7
Georgia	8.0	14.3	16.5	26.1	33.9	*
Indiana	9.3	13.2	24.3	30.6	35.7	34.8
Iowa	36.6	34.8	37.8	36.1	36.7	30.4
Maryland	16.4	16.9	17.8	17.7	18.3	17.6
Missouri	11.5	12.6	12.1	11.3	23.6	23.3
North Carolina	7.8	11.5	11.4	15.0	27.1	30.4
South Dakota	40.7	38.1	35.3	39.2	35.8	37.1
Tennessee	10.0	11.3	13.7	14.6	16.4	17.9
Texas	50.2	55.2	52.3	62.6	65.7	70.0
Utah	20.9	28.7	29.2	31.0	28.5	28.1
Virginia	6.8	9.4	14.2	9.4	4.5	10.0

Source: "Fiscal 50: State Trends and Analysis." Pew Charitable Trust.

*Hold highest rating across all three rating agencies.

**Did not report.

Fully Funding the Revenue Reserve at 2% of Operating Appropriations by End of FY 2020

Fiscal Year	Fiscal Year Operating Appropriations before Revenue Cash Reserve	Annual Deposits	Cumulative Balance	% of Operating Appropriations	Fiscal Year Ending Balance in Revenue Stabilization Fund	% of Operating Appropriations	Fiscal Year Ending Balance in Revenue Stabilization Fund + Revenue Reserve	% of Operating Appropriations
FY 2018	20,299,447,487	156,395,372	156,395,372	0.8%	281,784,246	1.4%	438,179,618	2.2%
FY 2019	20,821,213,958	50,000,000	206,395,372	1.0%	284,611,509	1.4%	491,006,881	2.4%
FY 2020	21,334,283,087	220,700,000	427,095,372	2.0%	287,457,624	1.3%	714,552,996	3.3%

8% of Annual Operating Expenses 1,706,742,647

Additional Funds Needed to Reach 8% of Annual Operating Expenses 992,189,651

Dominion makes moves to boost credit profile, sell 20 million shares of stock

BY ROBERT ZULLO

Richmond Times-Dispatch

Dominion Energy Inc. announced a series of moves Tuesday aimed at boosting the Richmond-based company's credit profile while maintaining its bond ratings.

The actions came in the face of a decision by the Federal Energy Regulatory Commission earlier this month that dealt a blow to the stock price of the energy giant's Dominion Midstream Partners, which handles natural gas terminal, processing, storage, transportation and other assets.

Also, in January, rating agency Moody's changed its outlook on Dominion to negative as a result of the company's low ratio of cash flow to debt.

The company will conduct a "forward sale" — which allows it to sell stock now and collect

the funds later — of 20 million shares of Dominion Energy common stock priced Tuesday night at \$67.85, which would generate about nearly \$1.4 billion to be used for "general corporate purposes." Shares closed Wednesday at \$67.79, down \$1.43 or 2.07 percent.

Per Dominion, those include "the reduction of Dominion Energy-level short- and long-term debt and support for Dominion Energy's regulated growth capital investments."

"Dominion Energy's decision to issue common equity was designed to protect its current investment grade ratings and to provide additional financial flexibility in the future," said David West, an analyst and senior vice president at Davenport & Co. LLC financial brokerage in Richmond. "The company indicated this action will address its common equity needs for 2018 and 2019

and allow it to reduce parent company debt more quickly than originally planned."

Dominion also is considering the sale of some "non-core assets," including its ownership interest in Blue Racer Midstream, a natural gas gathering and processing joint venture between Dominion and Caiman Energy in the Utica basin. And it's pursuing a "debt financing" of its Cove Point liquefied natural gas facility in Maryland, using the proceeds to reduce debt of the parent company.

"The initiatives we have announced to improve Dominion Energy's credit profile and retain our solid investment-grade bond ratings reaffirm our long-term earnings and dividend outlook and help keep borrowing costs low at our electric utility serving Virginia and North Carolina," said Ryan Frazier, a company

spokesman.

Ratings downgrades could affect the cost of borrowing money, which would be passed on to utility ratepayers.

In a news release, the company says it continues to expect operating earnings per share to grow by more than 5 percent per year to 2020 and beyond.

Earlier this month, FERC said it would no longer allow master limited partnership interstate natural gas and oil pipelines to recover an income tax allowance in cost-of-service rates.

That sent the share price of Dominion Energy Midstream Partners, which owns several such systems, tumbling. The stock was trading at about \$26 a share earlier this month. It closed Wednesday at \$15.35.

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